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ABSTRACT

In determining whether colleges or universities should operate their own food services or bookstores or lease them to contract operators, school business officers should consider a number of factors. These include whether sales volume is sufficiently large to cover direct operating costs and overhead; inventory investment; appearance, service, and business volume: burden on accounting department of orders, credits, and payments; the ability to use or install proper retail accounting methods; and the institutional attention and priority given to the operation of these auxiliary services. While self-operation provides opportunities for overall direction and shifts in emphasis, to earn substantial returns, to finance additional facilities, and to demonstrate management ability, such operations must be sufficiently large and have sufficient business expertise to take advantage of these opportunities. Contractors, on the other hand, provide the school business officer with: (1) professional management; (2) a predictable return; (3) freedom from day-to-day problems and pitfalls; (4) cash flow rather than inventory investment; and (5) escape from accounting, personnel, and management burdens. In addition, contractors enjoy certain advantages over self-operators, including the ability to take advantage of quantity buying; to take risks on impulse merchandise; to take advantage of new trends in merchandising and adminstration; and freedom from public sector personnel policies governing terminations, wages, and holidays. (AYC)

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In-House VS Franchise College Food Services and Bookstores

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Should colleges and universities operate their food services and bookstores themselves or lease them to contract operators? This question arises with greater and greater frequency, and unfortunately, too often it comes up at the worst of times. The question is most often prompted by student complaints, a poor profit picture, an adverse audit report or similar trauma. Attention is focused on the symptom rather than the problem or the remedy.

Why is the decision to lease or not to lease seldom made in a cool clearheaded unprejudiced session; for example, as part of a long range plan? Why? Usually because food services and bookstores command such a small part of college management time and priority that they are overlooked in planning and administration until problems surface. This alone is a clear indication that self-operation is fraught with pitfalls and dangers. Neglect is the underlying root cause of such universal ills as divorce, auto breakdown, tooth decay and business failure. Food service and bookstore operations on today's mid size community college campuses are, or should be, million dollar businesses. They deserve and require more attention than college administrators have usually devoted to them. Too often, we have devoted more time to creating and posting little signs urging staff to turn off lights to save 25 cents worth of electricity while dollars leak from huge cracks in our auxiliary operations.

Obviously, you are interested and thinking about operate/lease alternatives or you would not be in here on a Saturday afternoon in Atlanta.

While I have your attention away from phones and staff; while Willard Scott has us in a mellow frame of mind - ask yourselves these questions:

1. Is my gross sales volume less than $250,000 per year, per enterprise?
2. What other use could I make, including investing at an attractive return, of the dollars invested in inventory?
3. Am I satisfied with appearance, service and volume?
4. Do I have, or anticipate, personnel problems?
5. Could I realize appreciable savings of time and costs in my accounting department if they were released of the burden of orders, credits and payments?
6. Am I using, or able to install, proper retail accounting methods to measure business performance and control the cash and inventory.
7. Does the food service and/or bookstore have enough institutional attention and priority to do a proper job?
8. What in the world am I doing in the retail business?

If you face these questions fairly and without bias, the answers will help determine whether self-operation or leasing is the best alternative for your campus.

Volume is a most critical factor. Many auxiliary managers interviewed at the NACAS Annual Meeting, in New Orleans, in 1981, were confused about the relationship of volume to leasing. The people from small schools felt that their campuses might not be able to attract a good contract with a good contractor, but that they would probably contract if they were larger. People from large campuses felt that their size was an advantage in self-operation, but that if they were smaller they would contract.

The importance of volume seems to be the basic need to do enough business to cover direct operating costs and overheads. If you have a good manager, in a small store at a small salary, you may be showing a return that is satisfying to you. In a small store you cannot take advantage of quantity buying, take risks with impulse merchandise, or expect what is basically a one person shop to maintain a high level of competence, confidence and involvement with new trends in merchandising and administration. Another serious consideration is back up staff for the one person show. Speaking of auxiliary operations

on the small campus, Bettye Miller, Director of Auxiliary Enterprises at Johns Hopkins' Baltimore campus said, "There is no one to back up your managers. If one leaves or becomes ill, the whole operation sags until a replacement is found."

Dollars invested in inventory are among the most important considerations in bookstores, but less important in food services A successful bookstore will have annual sales of three to four times the average investment in inventory. A food service operation should "turn" its inventory 20 to 25 times or more. At today's high interest rates, inventory management is crucial to financial success. The contractor enjoys a big advantage over the small and mid size self-operator. With higher volume, quantity buying gives the contractor a dollar advantage on price, shipping, and return policies. The contractor can afford to take a chance on new merchandise ideas, trying them at a few locations and tranferring to other stores to move out slow moving items. With proven sellers, the contractor can place the large order with maximum discount without creating inventory disasters. The most crucial consideration in food service inventory is spoilage. The manager, contractor, employee or college employee must be acutely aware of how long items may be retained under what conditions. A significant part of the decision between self-operation and contracting ought to be, "Can I control my inventories?" and "What could I earn on the dollars invested in inventory and what could I do with those dollars?"

Appearance, service and volume are the hallmarks of the well run auxiliary operation. Unfortunately, on the majority of college campuses, auxiliaries have not been well planned during the construction planing process, or have been poorly planned by architects who specialize in educational facilities or who are saddled with priorites and limitations that force the construction of facilities that are too small and under equipped for service. As Triton College, in Chicago's suburbs, has discovered, a well run bookstore or food service can finance the construction of its own building from the increased profits earned on higher volume in a more attractive facility. A contractor operated store will be attractive but not unique, contractor food will be pleasing to the eye if not to the palate.

Personnel problems are more acute in the public area. Public colleges may find themselves unable to dismiss any but the most unproductive employee. Private colleges may find the situation almost as difficult, for other reasons. A contractor can and will replace marginal managers looking for the best people his money can buy. Contractors normally pay minimum wage to occasional help. College policy may not permit this. Colleges are accustomed to a large number of holiday and vacation days compatible with the academic calendar. A business cannot afford that number of paid, nonproductive days.

With the big advantages in know how, inventory and personnel policy, the contractor can afford to pay rent and taxes and still earn a reasonable profit. Auxiliaries in small to mid size colleges are seldom expected to contribute their full share of overhead, not to mention the bad word, profit. Accounting, mail, telephone and long distance calls, postage costs, equipment rental on telephones and mailing machines, inter-campus mail deliveries, and staff benefits for the employees are often subsidized. Nor are auxiliaries always charged for bad debt and return check costs and maintenance. A contractor normally pays such costs if the contract is properly drawn. So, giving you credit for adequate retail accounting on your campus, management information and controls, and proper cost allocations, can your single entity carry the financial burden? Are you subsidizing your auxiliaries? Should you be? Need you be?

As college business officers, we all know how many separate problems compete for our attention. We also know that our colleagues in administration think of food service and bookstores only when necessary. Unless a problem surfaces that affects the other administrator, he or she is unlikely to give any thought to auxiliaries. In institutional planning sessions, boredom sets in within five minutes after auxiliaries are brought up for discussion. But don't blame your colleagues. You work in an educational institution, not a shopping mall. The educational enterprise is your main line of business. It deserves your first attention.

What then, are you doing in the retail business? Do you have a retail background and experience to provide adequate direction to a bookstore and a dining room and a snack bar? After your educational operation obligations have been attended to, do you have the time to give to the overall direction of auxiliaries? I'm not talking about simply hiring a good manager and turning it all over to the manager. I'm talking about reviewing the financial reports, checking the cash and inventory controls, reviewing and evaluating service, cleanliness, merchandise and public relations. If you do, and have the business background to do the job well, you may be able to do a better job financially, provide better service and customer satisfaction than a contractor, but, I find that you have to be pretty big and pretty good to accomplish this objective.

In summary, self-operation provides:

Opportunity for overall direction and shifts in emphasis.

Opportunity to earn a substantial return.

Opportunity to create additional units to your overall empire. This can be an advantage and add to institutional flexibility. It can also be a burden on institutional resources.

Opportunity to demonstrate management ability.

A contractor provides:

Professional management.

A predictable return.

Freedom from day to day problems and pitfalls.

Cash flow rather than inventory investment.

Escape from accounting, personnel and management burden.

Whether or not you have been considering a contractor, you should carefully consider the advantages and disadvantages to your own campus situation rather than waiting until a crisis forces the issue. After all, if a contractor can bail a campus out of a crisis, wouldn't it also be possible that a contractor could turn an average operation into a real winner?

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